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SUBJECT: DANANG - WAITING FOR INFRASTRUCTURE INVESTMENT TO PAY OFF

REF: (A) HCMC 1240, (B) HCMC 1238

1. (SBU) SUMMARY: A Consulate visit to Danang led by the CG highlighted the city's eagerness to serve as a gateway to Central Vietnam and mainland Southeast Asia. City leaders have boosted infrastructure investment, developing roads and a deep-sea port; now they are hoping their efforts will pay off in the form of increased trade and foreign direct investment. While Danang has active academic and NGO communities, it seems to lack some of the entrepreneurial spirit of Ho Chi Minh City. In addition to promoting Danang as an entry point to the region, authorities and developers have visions of developing the Danang and Quang Nam province seaside (the famed China Beach) into a resort mecca the likes of Phuket, Thailand. Consular and religious affairs issues are reported in reftels. END SUMMARY.

DANANG AS A GATEWAY TO MAINLAND SOUTHEAST ASIA

2. (U) A ConGen HCMC team, including the Consul General, PolOff, EconOff and a ConOff, visited Danang September 29-October 1. First Vice Chairman of the People's Committee, Tran Van Minh, explained that Danang is in a unique position to serve as an economic gateway to Central Vietnam and mainland Southeast Asia through its deep-water port and proximity to the East-West Corridor, a highway that runs from Quang Tri, Vietnam, just north of Danang, through Laos and Thailand to Mawlamyine port in Burma. He said the Corridor is complete except for a bridge over the Mekong River in Laos that is expected to open in early 2006. (NOTE: In addition, the largest tunnel in Southeast Asia, Hai Van tunnel, is scheduled to open at the end of 2004. This 6km tunnel will shorten the old 20km route through the Hai Van pass between Danang and the East-West Corridor. END NOTE.) Minh noted that land-locked Laos already relies heavily on Danang as a transit point for its exports and imports. Laos exports wood and gypsum through Danang and imports cement, iron and fuel. Danang leaders hope its connection to the East-West Corridor will make it a focal point for increased Vietnamese exports of agricultural goods, seafood and coffee to Laos, Thailand and Burma. Danang's local government also hopes to draw Thai tourists to the area.

3. (SBU) According to Vice Chairman Minh, city fathers recognized the need to develop Danang's infrastructure as a means of attracting increased trade and investment to Vietnam. They convinced the central government to allow Danang to keep 95 percent of its tax revenues from 2000 to 2005 to fund infrastructure development, including roads, bridges, the port and housing. After 2005, this arrangement will be phased out over time, with Danang keeping a decreasing portion of its revenues. According to Danang Department of Planning and Investment (DPI) Vice Director Lam Quang Minh, Hanoi agreed - "after quite a fight" -- to the unusual arrangement as a stopgap measure because there were no central government funds available to support Danang's infrastructure development ambitions.

4. (U) Now that most of the infrastructure development is complete, Danang is waiting to reap the benefits. Minh noted Danang's potential as a location to add value to Southeast Asian exports, e.g. wood processing. He also highlighted Danang's plans to attract tourists, pointing to Danang's beaches and its proximity to World Heritage sites like Hue and Hoi An as reasons to think tourism can be big business in Danang.

5. (U) At Danang's Tien Sa Port, Vice Director Nguyen Xuan Dung noted that while the port is the third-largest in Vietnam in terms of freight throughput after Ho Chi Minh City and Haiphong, Tien Sa Port is the country's deepest port, capable of handling ships up to 30,000 deadweight tons (DWT). Currently the relatively low volume of cargo transiting the port (2.4 million tons to date in 2004) is both a cause and a result of slightly higher total costs and longer waiting time for cargo shipped through Danang. While Danang's port charges are lower than those in HCMC and Haiphong, cargo often must wait to depart Tien Sa Port until there is enough cargo to fill a ship. Along with other Danang leaders, Vice Director Dung hopes the completion of the East-West Corridor and the installation of two gantry cranes for container cargo will bring a boom of business to the port by raising cargo volumes and, consequently, reducing costs. Dung also cited the location's potential as a port of call for cruise ships and other visiting vessels. A 2,000-passenger Star Cruises ship calls annually in Danang, and the USS Curtis Wilbur's visit in July was the first call by a foreign military ship to Danang in 15 years.

6. (SBU) A call to the Danang branch of the Vietnam Chamber of

Commerce and Industry (VCCI) highlighted Danang's deficiencies in entrepreneurial initiative. VCCI's Vice Director, Nguyen Cuong, indicated a desire to improve Danang's competitiveness, but lamented a lack of access to information on how to go about doing this. Cuong spent most of the meeting explaining why Danang business was not moving faster, but had no ideas or programs to put forward. He requested U.S. assistance in acquiring more information about the U.S. market and in aiding Danang to promote itself to U.S. businesses.

A TOURISM MASTER PLAN

17. (U) DPI Vice Director Minh outlined the city's tourism master plan, which calls for the development of approximately 24km of coastline - which includes the former U.S. R and R point of China Beach - into high-end beach resorts. This ambitious plan includes creating a large lagoon, adapting a former U.S. military airstrip into a helipad and converting land behind the resorts into shopping and office space. Vice Director Minh assured the Consul General that authorities are taking into consideration the potential for boom and bust in their tourism planning, but did not specify how they will adjust.

18. (SBU) The ConGen team also met with Rick Mayo-Smith of Indochina Capital, an American financial services firm based in Southeast Asia, and Alfonso DeMatteis of Delta Equipment and Construction Company, a U.S. construction management company based in Vietnam that has overseen the construction of the U.S. Consulate in HCMC and other projects. Indochina Capital, Delta Construction and other partners are developing a five-star resort at the southern end of the beach in neighboring Quang Nam province, near Hoi An. The partnership is selling elegant 3-bedroom beachside villas on a 31-hectare section of the beach for \$1 million. The hotel that will be part of the resort will rent rooms for \$200-300 a night. Mayo-Smith and DeMatteis hope their resort and the greater Danang resort area will rival the resort of Phuket, Thailand. DeMatteis told us that although all beachfront property from Marble Mountain near Danang to Hoi An has been leased for future tourist ventures. One beach resort development site near DeMatteis' site was foundering and its Viet Kieu owner was seeking to unload the lion's share of his beachfront property to other investors.

EDUCATION: DEVELOPING A SKILLED WORKFORCE

19. (SBU) During a visit to Danang University, the ConGen team met with university staff and student leaders. The university has more than 34,000 students, many studying engineering and economics. According to the rector, most students stay in Danang after graduation, which means the city is developing a skilled workforce that could prove attractive to investors. However, others in the city told us that Danang still has a hard time competing for talent with the higher paying and livelier HCMC.

10. (U) While at the university, ConOff gave a briefing on student visa procedures to a packed house of more than 100 students and parents. The majority of students were interested in advanced study in the U.S. at the master's or Ph.D. level, contrary to the typical Vietnamese student visa applicant, who wishes to go to the U.S. to study English or take classes at a community college.

NGOS IN DANANG: A MODEL FOR OTHER PROVINCES?

11. (SBU) The ConGen team visited several NGOs that are providing assistance to street children and the handicapped, as well as infrastructure support to schools, hospitals and medical clinics in Danang and Central Vietnam. All the NGOs reported receiving strong support from the Danang government. They are allowed to operate independently, face little political pressure and have the power to turn down projects or beneficiaries proposed by government agencies. One NGO, East Meets West, has been allowed, after a lengthy debate with the local government, to provide direct aid via turnkey projects without having to go through the government. East Meets West has also had success with educational projects that aid ethnic minorities in rural areas in Quang Nam province near the Central Highlands province of Kon Tum.

COMMENT

12. (SBU) Danang has many strengths - well developed but still underused infrastructure, an increasingly educated workforce and a strong NGO community. The city's political and business leadership is hoping that these strengths will attract increased trade and investment. They clearly hope that the East-West Corridor and tourism can provide the boost to ignite more rapid growth. However, Danang, no matter how beautiful, is not Phuket. Moreover, city leaders seem not to understand the need to be more proactive in reaching out to both foreign and domestic investors to convince them that Danang is now open for business.

WINNICK